

Message Text

CONFIDENTIAL

PAGE 01 HONG K 04861 01 OF 02 021418Z

50

ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 NIC-01 DODE-00 PA-04 USIA-15 PRS-01

DRC-01 SAM-01 FEA-02 /198 W
----- 007488

R 020411Z MAY 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 568

INFO USLO PEKING

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY SEOUL

AMEMBASSY MANILA

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY BONN

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 4861

DEPARTMENT PLEASE PASS TREASURY FOR BENNETT

E.O. 11652: GDS

TAGS: EFIN, CH

SUBJECT: CHINA'S 1973 BALANCE OF PAYMENTS AND OUTLOOK FOR 1974

REF: HK A-322, 12/14/73; HK 12621, 12/17/73

1. FOLLOWING IS SUMMARY AND PART I OF A-96 OF MAY 2, 1974.

2. SUMMARY: THE PRINCIPAL CONCLUSIONS ARE:

(A) IN SPITE OF THE RUMBLINGS OF POLITICAL CONTROVERSY, THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 HONG K 04861 01 OF 02 021418Z

ACTIVITIES OF THE STATE TRADING CORPORATIONS INDICATE

THAT CHINA IS CONTINUING TO PURCHASE MAJOR ELEMENTS
OF ITS INVESTMENT PROGRAM OVERSEAS;

(B) IMPORTS ACROSS A WIDE RANGE OF COMMODITIES AND SUPPLIERS
HAVE EXPANDED SHARPLY IN 1973 (PLUS 78 PER CENT) AND WILL CONTINUE
TO RISE THIS YEAR;

(C) EXPORTS HAVE ALSO RISEN FASTER THAN EVER BEFORE (PLUS 45 PCT)
PARTICULARLY TO JAPAN AND SHOULD MAINTAIN MUCH OF THEIR
MOMENTUM IN 1974;

(D) 1972'S BALANCE OF PAYMENTS SURPLUS OF \$200-300 MILLION
WAS PROBABLY CHANGED INTO A DEFICIT OF \$400 MILLION IN
1973;

(E) THE DEFICIT WAS COVERED LARGELY BY RELATIVELY SHORT-TERM
BORROWING (1-18 MONTHS);

(F) IN ADDITION, PLANT SUPPLIERS HAVE LENT \$800 MILLION OF
FIVE YEAR CREDITS (DEFERRED PAYMENTS) WHICH WILL BE DRAWN
IN 1974 AND THEREAFTER;

(G) A SUBSTANTIAL PORTION (\$160 MILLION) OF PRC'S 1973 TRADE
DEFICIT (\$750 MILLION) WITH THE UNITED STATES WAS FINANCED
BY US AND FOREIGN BANK BRANCHES BY LENDING FROM THE US
ASSOCIATED LARGELY WITH AGRICULTURE EXPORTS; AND

(H) THE BALANCE OF PAYMENTS DEFICIT IN 1974 MAY REQUIRE MORE
THAN ONE BILLION DOLLARS OF RELATIVELY SHORT FINANCING
CREDITS AND/OR USE OF RESERVES. END SUMMARY

I. AN OVERALL VIEW

3. 1973 BALANCE OF PAYMENTS - THE MAJOR ELEMENTS OF THE BALANCE
OF PAYMENTS ARE AS FOLLOWS:

	US\$ BILLIONS	PERCENT INCREASE
--	---------------	------------------

EXPORTS	4.4	(45)
---------	-----	------

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 HONG K 04861 01 OF 02 021418Z

IMPORTS	4.9	(78)
---------	-----	------

BALANCE	-0.5	
---------	------	--

NET INVISIBLES	0.1	
----------------	-----	--

CURRENT ACCOUNT BALANCE	-0.4	
-------------------------	------	--

NET BORROWING 0.6

OTHER CAPITAL -0.2

OVERALL BALANCE (EQUAL TO ---
CHANGE IN RESERVES, ERRORS
AND OMISSIONS)

WHILE THESE NUMBERS SHOULD NOT BE TAKEN AS MORE THAN ORDERS OF
MAGNITUDE THEY INDICATE:

(A) A MUCH LARGER PARTICIPATION IN WORLD TRADE THAN EXPECTED A
YEAR AGO;

(B) A CONSIDERABLE SUCCESS IN EXPANDING EXPORTS;

(C) A WILLINGNESS TO RUN A SUBSTANTIAL OVERALL DEFICIT
(THERE WAS PROBABLY A SURPLUS (\$200-300 MILLION IN
1972); AND

(D) A HIGH LEVEL OF FOREIGN BORROWING ALMOST ENTIRELY ON
QUITE SHORT MATURITIES AT COMMERCIAL RATES OF INTEREST.

4. EXPORTS - WITH RESPECT TO EXPORTS TO NON-COMMUNIST COUNTRIES
(85 PERCENT OF THE TOTAL), OVERALL VALUE GREW 59 PERCENT OF WHICH
VOLUME ROSE 15-20 PERCENT WHILE PRICES INCREASED 30-35 PERCENT.

THE VOLUME OF FOODSTUFFS WAS PROBABLY UNCHANGED INDICATING THAT
THE VOLUME OF RAW MATERIALS AND MANUFACTURES ROSE 25 PERCENT
OR MORE. PARTIAL INFORMATION AVAILABLE INDICATES THAT TEXTILES,
CLOTHING AND OTHER MANUFACTURES WERE THE MOST RAPIDLY GROWING
SECTORS IN 1973. THIS TREND SHOULD CONTINUE IN 1974 WITH THE
ADDITION OF PETROLEUM, LARGELY CRUDE OIL, BECOMING AN IMPORTANT
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 HONG K 04861 01 OF 02 021418Z

SOURCE OF FOREIGN EXCHANGE FOR FIRST TIME (\$300 MILLION PLUS).
JAPAN BECAME THE MOST IMPORTANT MARKET (21 PCT) SURPASSING HONG KONG
(19 PERCENT) NOW NUMBER TWO. EXPORTS TO JAPAN DOUBLED TO \$925
MILLION IN 1973, BASED ON SHIPMENTS OF COTTON AND SILK TEXTILES,
HIGH PRICES FOR RAW SILK, AND INTEREST IN CHINESE ARTS AND CRAFTS.
THE CHANGE IN JAPANESE TEXTILE IMPORT POLICY AND THE INCENTIVE
PROVIDED JAPANESE IMPORTERS BY THE SINO-JAPANESE CLEARING AGREEMENT
SEEMS TO BE THE PRINCIPAL FACTORS. OTHERWISE, THE GEOGRAPHICAL
PATTERN REMAINED SIMILAR TO 1972 WITH THE EXCEPTION OF THE RAPIDLY
GROWING BUT STILL SMALL SALES TO THE US AND THE BEGINNING OF
EXPORTS TO THAILAND AND THE PHILIPPINES.

5. THE MAJOR TRENDS OF CHINESE IMPORTS AND ORDERS IN 1973 AND THE
OUTLOOK FOR 1974 ARE:

(A) INCREASING VOLUME OF GRAIN AT HIGHER PRICES:

	MILLIONS OF TONS	MILLIONS OF DOLLARS
1972	4.5	345
1973	7.5	900
1974	8.7	NA

(B) ABOUT \$1.7 BILLION WORTH OF WHOLE PLANT CONTRACTS
(1972 THROUGH FIRST QUARTER 1974) STRESSING CHEMICALS
AND FERTILIZERS (\$1.2 BILLION), PROBABLY BASED ON
EXPECTATION OF GREATER AVAILABILITIES OF PETROLEUM
DOMESTICALLY, AND SUBSTANTIAL ORDERS FOR POWER AND STEEL;

(C) A MAJOR EXPANSION OF TRANSPORT EQUIPMENT -- AIRCRAFT,
TRUCKS, SHIPS, RAILROAD AND PORT IMPROVEMENTS;

(D) GREATER RELIANCE ON FOREIGN SUPPLIERS FOR COTTON, PARTLY
FOR INCORPORATION INTO EXPORTS, AND FOR SOYBEAN SUPPLIES;

(E) INCREASED IMPORT OF STEEL; AND

(F) JAPAN REMAINS THE MOST IMPORTANT SUPPLIER (22 PERCENT)
WITH THE US SECOND (16 PERCENT).
CONFIDENTIAL

CONFIDENTIAL

PAGE 05 HONG K 04861 01 OF 02 021418Z

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 HONG K 04861 02 OF 02 021442Z

50

ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 NIC-01 DODE-00 PA-04 USIA-15 PRS-01

DRC-01 SAM-01 FEA-02 /198 W

----- 007822

R 020411Z MAY 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 569

INFO USLO PEKING

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY SEOUL

AMEMBASSY MANILA

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY BONN

C O N F I D E N T I A L SECTION 2 OF 2 HONG KONG 4861

DEPARTMENT PLEASE PASS TREASURY FOR BENNETT

6. 1974 BALANCE OF PAYMENTS OUTLOOK - IT IS CLEAR ON THE BASIS OF (A) LONG-TERM GRAIN CONTRACTS, (B) PAST AND CONTINUING WHOLE PLANT AND MAJOR EQUIPMENT ORDERS, AND (C) RISING WORLD PRICES, THAT THE VALUE OF CHINESE IMPORTS WILL CONTINUE TO RISE RAPIDLY. SECONDLY, PRC BEHAVIOR IN 1973, AND 1974 TO DATE, SUGGEST THAT A SUBSTANTIAL AND CONTINUING DEFICIT IS EXPECTED FOR SOME TIME AND THAT THE RESPONSE WILL NOT BE A MAJOR CUTBACK OF IMPORTS BUT RATHER FURTHER PROMOTION OF EXPORTS AND INCREASED BORROWING. UNDER THESE CIRCUMSTANCES, THE 1974 BALANCE OF PAYMENTS SHOULD HAVE A PATTERN SIMILAR TO THAT OF 1973 -- SUBSTANTIAL RISES IN IMPORTS AND EXPORTS, BUT A LARGER TRADE AND CURRENT ACCOUNT TRADE DEFICIT, AND AS A CONSEQUENCE, A LARGER VOLUME OF BORROWING. OUR WORKING ASSUMPTION IS THAT THE PRC WOULD PREFER TO CONTINUE BORROWING ON THE BASIS OF ITS RESERVES RATHER THAN DRAW THEM DOWN TO COVER DEFICITS.

CONFIDENTIAL

PAGE 02 HONG K 04861 02 OF 02 021442Z

7. THE FOLLOWING BALANCE OF PAYMENTS PROJECTIONS ARE ILLUSTRATIVE AND FAIRLY SPECULATIVE AT THIS TIME BUT THEY ARE STATED TO PROVIDE ROUGH ORDERS OF MAGNITUDE: (IN BILLIONS OF DOLLARS)

	1973	CHANGE	1974	CHANGE
EXPORTS	4.4	45 PCT	6.0	40 PCT
IMPORTS	4.9	78 PCT	7.0 - 7.5	40 - 50 PCT
BALANCE	-0.5		-1.0 - 1.5	

INVISIBLES, NET	0.1	0.1
BORROWING AND OTHER		
CAPITAL, NET	0.4	0.9 - 1.4
(OF WHICH DEFERRED PAYMENTS) (-)		(0.2)

THE ASSUMPTIONS ARE THAT CHINA WILL INCREASE ITS MARKET SHARE IN JAPAN AND HONG KONG BUT GIVEN THEIR REDUCED RATES OF GNP GROWTH, ITS EXPORTS WILL NOT RISE AS FAST AS IN 1973. OTHER MARKETS AS A WHOLE WILL HAVE SIMILAR BEHAVIOR. ON THE IMPORT SIDE, BECAUSE THE PRC MADE THE BULK OF ITS ADJUSTMENT TO HIGHER VOLUME AND PRICES OF GRAIN AND OTHER AGRICULTURAL IMPORTS IN 1973, THE RATE OF RISE OF PURCHASES WILL SLOW DOWN IN 1974. THE MAJOR PART OF THIS GROWTH WILL BE INFLATION. PLANT IMPORTS SHOULD ONLY CONTRIBUTE \$200-300 MILLION IN 1974 BUT STEEPLY INCREASING AMOUNTS IN LATER YEARS.

8. THE PREDICTED AND STILL VERY SUBSTANTIAL INCREASE IN CREDIT WILL BE ASSOCIATED PARTLY (A) WITH AGRICULTURE EXPORTS, (B) PARTLY WITH MEDIUM-TERM "DEFERRED PAYMENTS" (CONTRACTED FOR ON MARCH 31 - \$758 MILLION) BUT HEAVILY WITH BORROWING FROM FOREIGN BANKS FOR VARYING BUT FAIRLY SHORT MATURITIES. THIS MEANS THAT THERE IS A CONSTANT ROLLING OVER OF CREDITS (NOT NECESSARILY FROM THE SAME LENDER) AND THAT INTEREST COSTS ARE HIGH AND UNDILUTED WITH THE PUBLIC CONCESSIONAL CREDITS MOST LDCS IN A SIMILAR SITUATION WOULD ENJOY. FOR EXAMPLE, AT THE END OF 1974, THE PRC MIGHT BE

CONFIDENTIAL

PAGE 03 HONG K 04861 02 OF 02 021442Z

PAYING INTEREST ON \$1.5-2.0 BILLION AT AN AVERAGE OF 8-9 PERCENT OR A COST OF OVER \$150 MILLION PER YEAR. ON THE ASSUMPTION THAT CHINA HAS AT LEAST AS GOOD PROJECTIONS AS THIS ONE, IT MAY TAKE ACTION TO STABILIZE AND THEN REDUCE THE GAP BETWEEN EXPORTS AND IMPORTS SO AS NOT TO MAKE IT IMPOSSIBLY COSTLY TO FINANCE. MUCH WILL DEPEND ON ITS FUTURE GRAIN NEEDS AND ON WHETHER THE WORLD PRICE OF WHEAT, WHICH IS STILL THREE TIMES HIGHER THAN IT WAS ONLY THREE YEARS AGO, WILL FALL SUBSTANTIALLY BY 1975, PROVIDING SOME RELIEF IN THAT AREA.

9. TRADE WITH THE UNITED STATES - THE RAPIDITY OF US EXPORT GROWTH TO CHINA IN 1973 OCCURRED FIRST, BECAUSE WE WERE THE ONLY POSSIBLE SOURCE OF SUPPLY FOR MANY COMMODITIES, AND SECOND BECAUSE OF THE SPEED WITH WHICH PRICES ON AGRUCULTURAL EXPORTS HAVE RISEN. FOR THESE REASONS WE WENT FROM ALMOST NOTHING IN 1972 TO A 16 PERCENT MARKET SHARE IN 1973. FOR THE SAME REASONS WE WILL PROBABLY HOLD OUR POSITION IN 1974. FOR THE FUTURE, HOWEVER, THE EXISTENCE OF LONG-TERM WHEAT CONTRACTS WITH CANADA, AUSTRALIA AND ARGENTINA (ALSO CORN) MEAN THAT WE WILL REMAIN THE RESIDUAL SUPPLIER IN A CATEGORY THAT CONSTITUTED MORE THAN HALF OF OUR EXPORTS LAST YEAR AND THUS DEPENDENT ON BAD YEARS IN CHINA FOR GOOD SALES. BUT AT LEAST IN THE AREA OF CREDIT, IT SEEMS THAT PRIVATE US BANKS AND FOREIGN BANK BRANCHES IN THE UNITED STATES ARE

BEGINNING TO PROVIDE CREDIT ON TERMS (12-18 MONTHS) SIMILAR TO THOSE OF OUR COMPETITORS. IN THE AREA OF EQUIPMENT AND PLANT EXPORTS WE REMAIN AT A DISADVANTAGE BECAUSE THERE IS NO OFFICIAL DIRECT LENDING OR GUARANTY FACILITIES AVAILABLE, SUCH AS SUPPORT FOR JAPANESE AND FRENCH PLANT CONTRACTS. THEREFORE, OUR PRESENT MARKET SHARE MAY WELL DECLINE IN 1975 AND THEREAFTER. ON THE OTHER HAND, CHINESE EXPORTS TO THE US WILL PROBABLY DOUBLE AGAIN THIS YEAR AND SHOULD, OVER THE NEXT 3-5 YEARS, BEGIN TO CLOSE THE GAP.

CROSS

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: IMPORTS, DATA, BALANCE OF PAYMENTS, INVESTMENTS, BALANCE OF PAYMENTS DEFICITS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974HONGK04861
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740105-0504
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740580/aaaacuai.tel
Line Count: 341
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: HK A-322, 12/14/73; HK 12621, 12/17/, 73
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 19 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 APR 2002 by shawdg>; APPROVED <17 JAN 2003 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CHINA'S 1973 BALANCE OF PAYMENTS AND OUTLOOK FOR 1974
TAGS: EFIN, CH
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005